

Interest, Pension and Post-retirement Benefits - Operating Expense and Capital Transfers

Funding Schedule by Activity

(Accrued Expenditures)

	(dollars in thousands)				
	FY 2004	FY 2005	FY 2006	\$ Change	%Change
BPA Bond Interest (Net)	104,454	158,468	175,445	+16,977	+10.7%
BPA Appropriation Interest	61,778	45,125	44,062	-1,063	-2.4%
Corps of Engineers Appropriation Interest	152,863	150,717	142,714	-8,003	-5.3%
Lower Snake River Comp Plan Interest	16,450	16,453	16,453	0	0.0%
Bureau of Reclamation Appropriation Interest	42,396	42,341	42,341	0	0.0%
Subtotal, Interest – Operating Expense	377,941	413,104	421,015	+7,911	+1.9%
Pension and Post-retirement Benefits . . .	30,900	26,500	23,150	-3,350	-12.6%
Total, Interest, Pension and Post-retirement Benefits	408,841	439,604	444,165	+4,561	+1.0%

Operating Expense

Description

Interest expense provides for the payment of interest due on FCRPS debt. This consists of capital investment in FCRPS hydroelectric generating and transmission facilities of Bonneville, the Corps and the Bureau. Investments were financed by Congressional appropriations and Bonneville borrowings from the Treasury. Bonneville repays FCRPS debt through its power sales and transmission services revenues.

Since receiving Treasury borrowing authority in 1974 under the Transmission System Act, all Bonneville borrowing has been at market rates. As of October 1, 1996, all of Bonneville's repayment obligations on FCRPS appropriated investment (Corps and Bureau FCRPS investment and Bonneville investment) financed with appropriations prior to the Transmission System Act that were unpaid as of September 30, 1996, were restructured and assigned new current-market interest rates. The Bonneville Appropriations Refinancing Act of 1996 called for resetting (reducing) the unpaid principal of FCRPS appropriations and reassigning (increasing) interest rates. New principal amounts were established as of the beginning of FY 1997 at the present value of the principal and annual interest payments Bonneville would make to the Treasury for

these obligations in the absence of the legislation, plus \$100 million. The new principal amounts are then assigned new interest rates based on the Treasury yield curve rates prevailing at the end of FY 1996. Bonneville's outstanding repayment obligations on appropriations at the end of FY 1996 were \$6.7 billion with a weighted average interest rate of 3.4 percent. The refinancing reduced the principal amount to \$4.1 billion with a weighted average interest rate of 7.1 percent. Implementation of the refinancing took place in 1997 after audited actual financial data was available. As called for in the legislation, Bonneville submitted its calculations and interest rate assignments implementing the Bonneville Appropriations Refinancing Act to Treasury for their review and approval. Treasury approved the implementation calculations in July 1997. The Act also calls for all future FCRPS appropriations to be assigned prevailing Treasury yield curve interest rates.

Interest estimates are a direct function of costs of Treasury borrowing to Bonneville, repayment status of outstanding FCRPS investments, and projected additions to FCRPS plant in service. These estimates may change over time depending on forecasted market conditions. The interest cost estimates below include the impact of Bonneville's appropriation refinancing legislation.

Bonneville has been paying its unfunded liability of the Civil Service Retirement System (CSRS) and post-retirement benefits into the General Fund of the Treasury (receipt account 892889) since FY 1998. These payments are consistent with the FY 2001 Administration's budget which assumed Bonneville would prospectively cover the full unfunded liability that accrues in fiscal years after FY 1997 of the Civil Service Retirement and Disability Fund (Disability Fund), the Employees Health Benefits Fund (Health Fund), and the Employees Life Insurance Fund (Insurance Fund) that it had not covered prior to FY 1998. As part of the FY 2001 Administration's Budget, Bonneville assumed its entire CSRS cost recovery would be phased in over a ten-year period, given that wholesale power and transmission rates for Bonneville were contractually frozen until the end of FY 2001 in order to meet competitive market pressures. For the Remainder of the ten-year period, Bonneville paid \$31 million in FY 2004 and the following amounts are assumed to be recovered by Bonneville through rates and paid into the General Fund of the Treasury: \$26.5 million in FY 2005, \$23.2 million in FY 2006, and \$21.1 million in FY 2007. BPA expects to satisfy its prior year commitments for under funded CSRS and post-retirement benefits by FY 2007. Cost estimates include Pension and Post-retirement Benefits for Bonneville and the power-related portion of the Corps, Bureau, and USFWS.

Capital Transfers

Funding Schedule by Activity

(Accrued Expenditures)

	(dollars in thousands)				
	FY 2004	FY 2005	FY 2006	\$ Change	% Change
Bonneville Bond Amortization	277,454	200,000	230,100	+30,100	+15.1%
Bureau Appropriation Amortization	758	0	7	+7	NA
Bonneville Appropriation Amortization . .	206,356	15,001	48,546	+33,545	+223.6%
Corps Appropriation Amortization	113,894	88,097	92,907	+4,810	+5.5%
Total, Capital Transfers	598,462	303,098	371,560	+68,462	+22.6%

Description

This activity conveys funds to the Treasury for repayment of certain FCRPS costs not included in the Associated Project Costs budget. Since capital transfers are cash transactions, they are not considered budget obligations. The total FY 2004 Capital Transfers amount includes \$346 million of advanced amortization or prepayment of Treasury debt consistent with BPA's capital strategy plan and debt optimization plan. The cumulative amount of advance amortization payments as of the end of FY 2004 is about \$1,146 million.